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Poultry and Products

Annual

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Report Highlights:
The Philippine poultry industry is likely to expand once again this year, fueled mainly by the growing domestic and regional demand for Philippine chicken meat. The high cost of feed will, however, continue to be a limiting factor in the sector's growth. Consumption of broiler meat is expected to outpace domestic production even with a temporarily weakened demand for chicken during the first quarter of 2004 due to Avian Influenza incidents in most of Asia and parts of Canada and the United States. Imports of broiler meat are forecast to increase in 2004 mainly as a result of the GRP's special chicken importation scheme implemented between June-August, 2004.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Manila [RP1]
[RP]

Production

The Philippine broiler industry is projected to expand by nearly 4 percent this year, fueled mainly by the growing domestic and regional demand for domestic chicken meat. The industry is forecast to produce over 660,000 MT of dressed chicken in 2004. The high cost of feed, however, continues to be a limiting factor in the sector's growth.

According to the Philippine feed milling industry, yellow corn makes up the bulk of most domestic poultry feed formulation. Data from the Bureau of Animal Industry (BAI) show that corn prices this year rose to over P12/kg[1] from an average of P8.71/kg in 2003. In 2002, yellow corn was only P7-8/kg. Soybean meal prices increased from an average of P15.76/kg in 2003 to more than P22/kg this year. In 2002, soybean meal only cost P12-13/kg.

The rise in farmgate prices for broilers, which began in the third quarter of 2003, is partly attributed to increased feed cost. A supply shortage during the last quarter of last year likewise pushed up farmgate prices by as much as 41 percent in December 2003. Data collected from the Bureau of Agricultural Statistics (BAS) show a significant increase in the average price of dressed chicken during the last two months of 2003.

Prices Table			
Country	Philippines		
Commodity	Poultry, Meat, Broiler		
Farmgate Prices in	Pesos	per uom	Kg
Year	2002	2003	% Change
Jan	58.77	60.53	3
Feb	60.91	64.43	6
Mar	57.88	50.77	-12
Apr	60.98	53.76	-12
May	60.94	55.55	-9
Jun	58.01	65.84	13
Jul	62.66	62.29	-1
Aug	63.37	56.89	-10
Sep	58.31	65.09	12
Oct	62.99	61.34	-3
Nov	57.36	72.24	26
Dec	64.11	90.36	41
Exchange Rate	55.81	Local Currency/US $	
Date of Quote	8/3/2004	MM/DD/YYYY	

[1] Average U.S. Dollar-Philippine Peso exchange rates in 2002 $1=P51.60; 2003 $1=P54.20 and 2004 (Jan-July) is $1=P55.94, Central Bank of the Philippines

The Philippine Department of Agriculture (DA) announced a special duty-free importation of corn during the early part of 2004 in an effort to lower the cost of meat in the market. However, due to increased world market prices of corn and soybean meal, the import scheme was not fully utilized by local traders. Only about 10,000 MT out of the announced 200,000 MT of corn was reportedly brought in.

The Office of the Philippine President issued Executive Order 300 (EO 300) in March 2004, lowering the applied tariffs on soybean meal and other feed preparations from 3 percent to 1 percent for a period of six months, ending in September 2004.

Consumption

Consumption of broiler meat is expected to outpace domestic production in 2004 and 2005 even with a temporarily weakened demand for chicken during the first quarter of 2004 due to the Avian Influenza (AI) occurrences in Asia and the United States. As one of the least expensive forms of protein, chicken meat continues to be popular among Filipino consumers.

The joint campaign of the Departments of Health and Agriculture, in cooperation with the domestic broiler industry, to promote the safety of chicken meat, has helped alleviate consumer apprehension about the safety of poultry products in the face of the rash of AI incidents in Southeast Asia.

The retail price of dressed chicken increased by as much as 29 percent in December of 2003 and throughout the first quarter of 2004. The tightness in supply, coupled with the strong demand for the products during the Christmas season, resulted in the significant price increases. However, domestic poultry integrators are also expected to do better this year, as local poultry prices remain attractive due to the tight supply situation.

Prices Table			
Country	Philippines		
Commodity	Poultry, Meat, Broiler		
Retail Prices in	Pesos	per uom	Kg
Year	2002	2003	% Change
Jan	85.43	82.25	-4
Feb	83.49	80.67	-3
Mar	80.70	80.50	0
Apr	79.72	83.17	4
May	86.24	84.83	-2
Jun	87.13	89.16	2
Jul	86.07	89.01	3
Aug	85.68	87.39	2
Sep	85.45	85.80	0
Oct	84.02	89.43	6
Nov	83.31	98.48	18
Dec	83.06	107.20	29
Exchange Rate	55.81	Local Currency/US $	
Date of Quote	8/3/2004	MM/DD/YYYY	

In an effort to bring down retail prices of chicken, the Philippine Association of Broiler Integrators (PABI) announced in January 2004, its plan to sell irregular sized dressed chickens (.750 kg or 1.5 kg packs) for P80/kg through Philippine DA rolling stores. Rolling stores are mobile vehicles that sell staple commodities, particularly rice and sugar, at a lower subsidized price. It was, however, the eventual increase in chicken supply and not this program that is widely considered to be the cause of lower chicken prices in the market.

Trade

Imports of broiler meat are forecast to increase in 2004 as a result of the GRP's special chicken importation scheme. In June 2004, the DA announced that it would allow the importation of 10,000 MT of chicken over and above the Minimum Access Volume (see Policy Section). The Philippine DA has been limiting poultry imports through the MAV scheme where only quota-holders are allowed to import frozen and chilled poultry meat into the country.

Tariff Rate Quotas: In 2004, the Philippines' tariff-rate-quota (TRQ) for chilled and/or frozen poultry meat (HTS 0207) is established at 22,968 MT. In 2005, the TRQ will drop to 10,374 MT as the Philippines' WTO commitment is to implement the 2005 TRQ on only a half-year basis.

In 2003, fresh, chilled and frozen poultry meat, Minimum Access Volume (MAV) utilization increased from 86 percent the year before to 95 percent. The annual MAV use for poultry meat for the last three years averaged about 80 percent. Practically all of the country's poultry meat imports fall under the MAV.

Importation of chicken meat under the MAV, particularly from the United States (except from Texas, Delaware, Maryland and Pennsylvania) and Canada, is expected to expand in 2004 as a result of the supply shortage experienced during the last quarter of 2003 and the current ban on poultry imports from Asian countries affected by the highly pathogenic avian influenza

MAV UTILIZATION RATE 2001-2003							
HS Code	Description	2001 MAV (MT)	Percent Used	2002 MAV (MT)	Percent Used	2003 MAV (MT)	Percent Used
0207	Fresh/ Chilled/ Frozen Poultry	19,834	60	20,879	86	21,923	95

MAV Importation (0207) (in metric tons)	**2004**					
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Total**
1. Australia	77.840	98.660	155.480	98.040	103.680	533.700
2. Belgium				75.000		75.000
3. Brazil		16.000	43.195			59.195
4. Canada	272.202	1269.800	1011.217	548.500	567.141	3668.860
5. France	92.228	100.000	0.186			192.414
6. Germany			53.088	26.385	53.034	132.507
7. Netherlands			27.000	27.000		54.000
8. UK	48.783		24.102			72.885
9. USA	1163.946	1164.199	696.988	160.321	387.145	3572.599
10. Total	1654.999	2648.659	2011.256	935.246	1111.000	8361.160

Source: Philippine Department of Agriculture, Minimum Access Volume Secretariat

National Statistics Office (NSO) data indicate that total imports of chicken cuts increased by 15 percent in 2003. Chicken cuts and offals, mostly chicken leg quarters, continue to represent about 72 percent of total Philippine poultry imports. The U.S. (49%) and Canada (42%) are the main sources of imported chicken cuts in the Philippines, which is mostly used by the fastfood industry. Turkey imports have been steadily increasing, indicating a growing demand for the products. Imports of turkey cuts grew by 160 percent in 2003. It is reported that a large potion of turkey imports are Mechanically Deboned Turkey (MDT) used mainly by the large food processors for hotdogs, sausages, etc.

Imports of processed chicken and turkey products are likely to increase, particularly from other ASEAN countries due to the low Common Effective Preferential Tariff (CEPT) of 5 percent accorded them compared to the 40 percent applied rate levied on products from other countries. However, the current import bans on most ASEAN countries (i.e., Thailand, Vietnam, Malaysia) due to the detection of Avian Influenza in those countries will likely temper this growth in the near term. The United States is a major supplier of chicken sausages to the country. In 2003, the Philippines imported over $6 million worth of sausages from the United States, about 80 percent of which were made from chicken and other poultry meats.

The Philippines remains one of the few countries in Asia that has not been affected by Avian Influenza (AI). Due to the AI-free status of the Philippines, many of the large food manufacturing companies are gearing up to export processed poultry products, particularly to Japan, Korea and the Middle East. Japanese trading companies have been working with large Philippine integrators to ensure strict Japanese specifications are met. Reportedly about 50 MT of prepared chicken products have been exported to Japan.

Policy

The main regulatory agencies monitoring the safety aspects of imported animals, meat and meat products are the Bureau of Animal Industry (BAI) and the National Meat Inspection Commission (NMIC) under the Philippine Department of Agriculture. While the BAI has jurisdiction over the import of both live animals and meat, the NMIC plays a key role in the enforcement of the regulations over fresh, chilled and frozen meat and poultry imports into the Philippines.

Republic Act No. 3639 (RA 3639) established the BAI and empowered it to prescribe safety standards in the importation, labeling and distribution of livestock, poultry, meat products, dairy products and animal feeds and veterinary supplies. The BAI is charged with preventing, controlling, containing and eradicating communicable animal disease by regulating the flow of animals and animal products in the country.

Presidential Decree No. 7 (PD 7) authorizes the NMIC to implement policies and procedures governing post production flow of meat and meat products both locally produced and imported. The Meat Import/Export Services of the NMIC ensures that imported or exportable meat and meat products are produced under acceptable conditions and systems.

Based on Executive Order No. 292 (EO 292) or the Philippine Administrative Code of 1987, all administrative issuances of Department Secretaries and heads of bureaus, offices or agencies should be in the form of circulars or orders. Circulars refer to issuances prescribing policies, rules and regulations, and procedures promulgated pursuant to law, applicable to individuals and organizations outside the Government and designed to supplement provisions of the law or to provide means for carrying them out; while orders refer to issuances directed to particular offices, officials, or employees, concerning specific matters including assignments, detail and transfer of personnel, for observance or compliance by all concerned.

Executive Orders are acts of the Philippine President providing for rules of a general or permanent character in the implementation or execution of constitutional or statutory powers. Republic Acts are legislative issuances enacted by the Philippine President, which form part of the country's formal laws and regulations. The following Executive and Departmental issuances relating to the importation of poultry and poultry products were promulgated in 2003 and 2004:

Avian Influenza: Imports of poultry products, by-products, day-old chicks originating from the states of Delaware, Maryland and Texas are temporarily banned in the Philippines due to detections of Avian Influenza (AI) in those states. DA issued Memorandum Order Nos. 8 (Delaware, February 9), 11 (Texas, February 24), 15 (Maryland, March 9). The ban on poultry imports from Pennsylvania has been in place since January 2002 due to a low pathogenic influenza outbreak in that state. USDA has requested the GRP to lift the import bans on all said states following the US notifications to the OIE of the complete eradication of AI in all affected states, and BAI has indicated that it will soon lift these bans.

For poultry transshipped through AI–affected countries, such as Taiwan, entry into the Philippines will be allowed provided that the containers are not opened at the port and the original seals remain intact. Moreover, FSIS export certificates must include the seal numbers of the container.

The re-export or re-routing of U.S. poultry exports originally destined for another country is not allowed by the Philippines. FSIS Certificates must be issued prior to the shipment of poultry products from the United States. The BAI earlier in the year issued a memorandum reiterating the provisions of Administrative Order No. 39 (AO 39). AO 39 "Meat Importation Guidelines" issued in 2002 requires the issuance of Veterinary Quarantine Clearance (VQC) certificates prior to the shipment of all meat and meat products from the country of origin.

Following confirmed avian influenza occurrences in British Columbia, Canada, the DA ordered a temporary ban on the importation of poultry and poultry products from that Province. In early 2004, the Philippine government imposed a temporary ban on chicken and poultry products from 11 Asian countries: Japan, Vietnam, Republic of Korea, Cambodia, Taiwan, Thailand, Laos, Pakistan, China, Indonesia and, most recently, Malaysia after confirmation of incidences of AI in those countries. The Philippines has likewise banned the importation of poultry and poultry products from South Africa, effective in August.

Special Chicken Importation: In June 2004, the Philippines temporarily lifted the special safeguard (SSG) duty on imports of chicken meat partly in response to rising retail prices of dressed chicken in the country. The Philippine Department of Agriculture has announced that it will allow the special importation of 10,000 MT of chicken over and above the Minimum Access Volume of 22,968 MT for 2004. The out-of-quota chicken importation will be subject to the regular 40 percent duty but will be exempt from the normal applicable Special Safeguard (SSG) duties (see GAIN RP4030).

The special importation has been administered on a first-come-first-served basis and is open to all interested importers. Local traders were allowed to first bring in 5,000 MT of chicken from June to August while an additional 5,000 MT will be allowed entry from September until the end of the year should the shortfall continue. Only a total of 66 containers per month would be allowed to enter the country under this special importation, with each trader entitled to a maximum of 20 containers. To date, almost all of the 5,000 MT authorized volume has benefited from this program.

Republic Act 9296 (RA 9296): On May 12, 2004, Republic Act 9296 entitled "An Act Strengthening the Meat Inspection System in the Country" was signed into law. According to the GRP, RA 9296 was crafted to harmonize Philippine meat inspection laws with international standards to enable the domestic meat processing industry to participate in global trade. A provision in the new law makes it unlawful for shipping lines and agents to ship meat and meat products to the Philippines without an accompanying Philippine Veterinary Quarantine Clearance certificate. Local meat traders and meat processors oppose this new law as being unduly trade restrictive. The Code took effect on June 18, but its Implementing Rules and Regulations (IRR) are currently being drafted.

Administrative Order 39 (AO 39): In April 2004, DA solicited public comments on proposed amendments to its Administrative Order 39 (AO39), regarding rules governing the import of meat and meat products. According to DA, the amendments are intended to provide a safeguard against the introduction of diseases such as BSE and Avian Influenza, and to stem rampant smuggling of agricultural products into the country.
There are several provisions of the draft amendment that may affect meat export trade. For example, only meat-trading firms sourcing from DA-accredited Foreign Meat Establishments will be allowed to export to the Philippines. Each meat shipment entering the Philippines may be subjected to a mandatory laboratory analysis. All packaging materials used for exported meat products must be marked "FOR EXPORT TO THE PHILIPPINES," which will put a costly burden on foreign meat packing establishments. The DA will not issue its Veterinary import permits for shipments that have already left the port of origin, which may be inconsistent with the WTO Agreement on Import Licensing, as well as the SPS Agreement.

The new draft reiterates the need to secure a Veterinary Quarantine Clearance (VQC) certificate prior to the shipment of meat and meat products from the country of origin.

Local meat importing associations are opposed to the proposed amendments, and have provided comments accordingly to DA. USDA and Manila-based embassies of Australia, Canada, France and Spain have likewise submitted comments to DA expressing concerns about the draft amendments. The GRP has yet to notify the WTO of these proposed changes, and DA is currently reviewing the draft.

Tariff Policy: In January 2003, the Philippine government announced that it would undertake a comprehensive review of all tariff lines. In early 2004, the Tariff Commission issued its recommendations for increased tariffs in several sectors and a slowdown in tariff reduction plans in others. While the majority of increased tariffs remain below WTO bound rates, they represent a reversal of the hard fought reforms of previous Philippine administrations during the 1990s.

The GRP announced this year the tariff rates for 2004/05. The 2004/05 MFN and Common Effective Preferential Tariff (CEPT) rates for ASEAN countries for all poultry and poultry products follow:

2004/05 TARIFFS FOR POULTRY AND POULTRY PRODUCTS						
HS Code	**Description**	**MFN**		**CEPT**		**Remarks**[2]
		In-quota	**Out-quota**	**In-quota**	**Out-quota**	
Poultry - Fresh, Chilled or Frozen, Dried or Smoked						
	Of fowls of the species Gallus domesticus					
0207.11.00	Not cut in pieces, fresh or chilled	40	40	40	40	All ASEAN
0207.12.00	Not cut in pieces, frozen	40	40	40	40	All ASEAN
0207.13.00	Cuts & offal, fresh or chilled	40	40	40	40	All ASEAN
0207.14.00	Cuts & offal, frozen	40	40	40	40	All ASEAN
	Turkey					
0207.24.00	Not cut in pieces, fresh or chilled	40	40	5	5	All ASEAN
0207.25.00	Not cut in pieces, frozen	30	35	5	5	All ASEAN
0207.26.00	Cuts & offal, fresh or chilled	40	40	5	5	All ASEAN
0207.27.00	Cuts & offal, frozen					All ASEAN
0207.27.10	Livers	40	40	40	40	All ASEAN
0207.27.90	Others	30	40	30	40	All ASEAN

HS Code	**Description**	**2004/2005**		**Remarks**[3]
		Applied Rates	**CEPT**	
Poultry – Dried				
0210.99.10	Freeze-dried chicken dice	3	5	All ASEAN members
Poultry – Processed				
1601.00.19	Sausages, Other	40	5	except KH & VN
1602.31.00	Prepared or preserved meat of turkey	40	5	except KH, LA & VN
1602.32.00	Prepared or preserved meat of chicken	40	5	except KH, LA & VN

Source: 2004 Tariff & Customs Code of the Philippines

[2] All ASEAN members may avail of Common Effective Preferential Tariff (CEPT); KH-Cambodia, LA-Laos, VN-Vietnam

Marketing

At present, five integrators are supplying the Philippine market with poultry and poultry products: San Miguel Foods, Inc., Swift Foods, Inc, Vitarich Corporation, Tyson Agro-Ventures and Universal Robina Corporation. These integrators are said to supply about 80 percent of total demand, while non-integrators and other commercial growers supply the remaining 20 percent.

According to the University of Asia and the Pacific, the Philippine poultry market is mainly composed of the food service and the household sector, each with distinct product preferences. The fastfood chains require volume delivery, mainly marinated parts and are very particular about product specifications, value quality and reliability. Hotels, restaurants and other institutional buyers require whole chickens and have more variable pricing against the relatively stable prices of fastfood chains.

Wet markets still provide the majority of the daily requirements of household purchases, offering both whole chicken and parts, although households are increasingly buying from supermarkets and hypermarkets. While the emerging Philippine retail sector is increasing its role in supplying fresh and frozen poultry meats to consumers, it is estimated that only about 10 percent is being sold at the supermarket level. Based on the latest Annual Poverty Indicator Survey (2003, APIS), refrigeration in Philippine households stands only at 10 percent and thus fresh meats are cooked very soon after purchase.

The Philippine poultry industry is expected to remain highly viable with value-added chicken products having a large potential for expansion. There are a number of both imported and domestically produced processed chicken products now available in the market (i.e., nuggets, hotdogs, Vienna sausages, marinated chicken, etc.). Additionally, a growing segment of consumers is turning to alternatives to red meats, which may spur demand for chicken and turkey products.

The Philippines is in the process of applying for International Halal Certification that would allow it to penetrate ASEAN and Middle East export markets. The private-sector-led Philippine Halal Food Development Program (PHFDP) is encouraging Halal food processors to acquire certification from the Office of Muslim Affairs (OMA) of the Philippine government. PHFDP hopes that the establishment of Halal international linkages and networking will boost the country's export potential. Food manufacturing and processing giants such as San Miguel Foods, Swifts Foods and Vitarich have reportedly adopted Halal methods in their food processing for both domestic and international markets. The Muslim Business Forum has estimated the global Halal market to be worth at least $80 billion a year.

According to the Department of Trade and Industry (DTI), the European Union's decision in August 2004 to extend its ban on poultry from several Asian nations may provide an opportunity for the Philippines to sell some poultry products in that region. The EU extended its ban until December 15, 2004 from August 15, 2004, on chicken products and live birds from nine Asian countries -- Thailand, Cambodia, Indonesia, Japan, Laos, Pakistan, China, Republic of Korea, and Vietnam -- due to AI.

PSD Table						
Country	Philippines					
Commodity	Poultry, Meat, Broiler				(1000 MT)(MIL HEAD)	
	Revised	2003	Estimate	2004	Forecast	2005
	Old	New	Old	New	Old	New
Market Year Begin		01/2003		01/2004		01/2005
Inventory (Reference)	0	38	0	32	0	38
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	655	635	684	660	0	679
Whole, Imports	0	0	0	0	0	0
Parts, Imports	16	14	20	16	0	18
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	16	14	20	16	0	18
TOTAL SUPPLY	**671**	**649**	**704**	**676**	**0**	**697**
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Consumption	656	640	686	667	0	688
Other Use, Losses	15	9	18	9	0	9
Total Dom. Consumption	671	649	704	676	0	697
TOTAL Use	671	649	704	676	0	697
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	**671**	**649**	**704**	**676**	**0**	**697**
Calendar Yr. Imp. from U.S.	0	6	0	8	0	10